Syngene International's Q2 and H1 FY 2016 Conference Call

October 21, 2015

Key Participants from Syngene International

- Ms. Kiran Mazumdar-Shaw: Managing Director
- Mr. Peter Bains: Executive Director and Chief Executive Officer
- Mr. M.B. Chinappa: President, Finance
- Dr. Manoj Nerurkar: Chief Operating Officer
- Ms. Sweta Pachlangiya: Investor Relations

Presentation Session

Moderator: Ladies and Gentlemen, Good Day and Welcome to Syngene International's Q2 and H1 FY16 Earnings Conference Call. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing '*' then '0' on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Ms. Sweta Pachlangiya from Syngene Investor Relations Team. Thank you and over to you ma'am.

Sweta Pachlangiya: Thank you, Darryl. Good Afternoon Ladies and Gentlemen. I am Sweta Pachlangiya from Syngene's Investor Relations team and I welcome you to Syngene's Earnings Call for the Second Quarter and First Half of Fiscal 2016. We have with us today Ms. Kiran Mazumdar-Shaw – Syngene's Managing Director; Mr. Peter Bains – Syngene's Chief Executive Officer and the Senior Management Team to discuss the Company's Business Performance and Outlook. Before we proceed with this call I would like to remind everyone that this call is being recorded and a replay will be available for the next few days immediately after this call. The transcript of this call would be made available in a week's time on the company's website. I would also like to add that today's discussion may be forward-looking in nature and must be viewed in relation to the risks pertaining to our business. The Safe Harbor clause indicated in

our press release also applies to this conference call. After the end of this call, in case you have any further questions please feel free to get in touch with me. Now, I would like to hand over the call to Ms. Kiran Mazumdar-Shaw. Over to you, ma'am.

Dr. Kiran M Shaw: Good Afternoon and Welcome to the First Earning Call of Syngene International since its listing. I am extremely pleased to announce a very strong performance by Syngene in its debut quarter. Whilst my colleague the CEO of Syngene -- Peter Bains will give you the various Financial Highlights , Business Strategy and other aspects of Syngene's business, I would just like to express a few of my early comments on Syngene as a company.

I think it has been a landmark quarter for the Biocon Group, given Syngene's very successful listing on the Indian bourses. The resounding oversubscription of Syngene's IPO has reflected the trust and confidence that the Indian investors have had in Syngene's value proposition and I think judging by the strong set of numbers delivered by Syngene this quarter, the prospects for Syngene's business are extremely encouraging. I believe that the global trends in externalization of Research Services augur very well for Syngene and given the various aspects of Syngene's competitive advantage I think Syngene is in a very sound position to deliver on its prospects. With that I would like to hand over this conference call to Peter Bains to give you more granularity on Syngene's business going forward.

Peter Bains: Thank you very much Kiran, and Good Afternoon Ladies and Gentlemen. May I also extend a very warm welcome to you all to the Q2 and First Half Fiscal '16 Investor Conference Call for Syngene which is exciting for us as, you know, it is the first since our listing in august. I would like to begin with an overview of Syngene's Business and Strategy, follow up with the Key Financial Highlights from the first half of this year and then open the floor to you all for your Questions.

As an organization, Syngene's vision is to become a world-class partner delivering innovative scientific solutions. Syngene's operating unit consists of world-class scientists working in state-of-the-art laboratories putting innovative science to work. The science that we put to work is the science of our global customer base, representing the Life Science industry around the world. Our offering is underpinned by a distinctive India cost advantage making it more attractive for innovative organizations to work in India: to discover and develop as well as to make in India.

We provide an Integrated Discovery and Development platform for Discovery and Development-focused organizations to develop both Small and Large Novel Molecules. As you would know, small molecules are the traditional chemical medicines: pills and powders, whereas the large molecules are the more complex expressed biologics like Monoclonal Antibodies, Recombinant Proteins and Peptides.

These platforms support a diverse range of life science sectors centered on pharmaceuticals and biotechnology but extending to allied sectors including for example, Nutritional, Animal Health and Agro Chemicals. We offer one-stop destination for organizations looking to optimize their R&D spends without compromising on the quality of R&D output. Our commitment to quality and compliance is reflected in the fact that we have successfully completed two US FDA audits in the last six months with no major observations or 483s. This takes the total of Syngene's USFDA audit count to four in the last two years with no 483s or major observations.

At a high level, our business is structured around three key verticals -- Dedicated Centers, Discovery Services Platform and Development and Manufacturing Service Platform.

- The Dedicated Center vertical includes our long-term strategic collaborations with Bristol-Myers Squibb, Abbott Nutrition and Baxter International. For each of these partnerships, we have customized infrastructure and scientific teams supporting dedicated client engagements.
- Our Discovery Services incorporate the Discovery Chemistry and Discovery Biology activities for both small and large molecules.
- Our Development and Manufacturing Services vertical encompasses our capability in Preclinical, Small and Large Molecule Manufacturing for Clinical Supplies, Formulation Development, Stability and Clinical Development Services.

This integrated platform has and continues to evolve to meet the current needs of our partners and to anticipate their future needs. Today we support over thousand programs in various stages of the Discovery-Development continuum. An increasing number of these programs are now in late stage clinical development and we believe we are very well positioned to support our clients as they transition from pre-commercial to commercial manufacturing. We anticipate that some of these molecules will eventually make it to the global market and one of our strategic

priorities is to extend our integrated model forward into commercial manufacturing. To that end we have initiated multiple discussions with our clients and have to date signed three long-term commercial supply agreements.

We have earmarked a growth CAPEX plan of approximately $200 million to be spent over the next three to four years, which will support three key initiatives – Capacity Expansion for our existing platforms in Discovery and Development Services including a 200,000 square foot Research Center, a New Formulation Center and a Biologics Manufacturing plant. We are also looking to extend our platform by adding new capabilities in exciting areas like in antibody drug conjugates, in Oligonucleotides and in Virology Testing Services. And as I had mentioned, we are also looking to forward integrate into large scale commercial manufacturing. As we have commented on previously, we acquired land in Mangalore and are beginning to go through the regulatory and clearance procedures in line with developing a full large scale facility in the years to come.

Moving on to the Finance Highlights for the First Half of Fiscal '16:

- We have delivered a strong performance in the first half with revenues growing by 28% to reach Rs.498 crores at the 6-month mark.
- The growth in the first half has been encouragingly broad-based across all of our three key verticals. The Dedicated Center Services have benefited from expansion of the services that we provide to our partners in this model; our Discovery Services have grown on the back of strong traction in Discovery Biology, which is in line with the growing interest of pharmaceutical companies and biotechnology companies in Large Molecules; and our Development Services vertical has had very strong growth lead by clinical trial supplies made to multiple clients that we are engaged with.
- Our EBITDA and PAT margins for the first 6-months were 33% and 19% respectively reflecting a year-on-year growth in the comparable period of 27% and 29% respectively.
- Our core operating performance has remained robust and we are confident of continuing this growth. Our CAPEX investments continue to be on track and we expect these to start to come on stream over the coming months and years.

With these opening comments I would now like to conclude by remarks and open the floor for your questions.

Question and Answer Session

Moderator: Thank you very much. We will now begin the question-and-answer session. Our first question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: In terms of continuing this strong performance, which we have seen as one of your comments in the Press Release on Research Services business. Just wanted to get some sense in terms of any guidance you are sharing for the fiscal '16 revenue growth outlook? Also, what would be the dollar growth for the first half and the quarter?

Peter Bains: As many of you on the call will be familiar with the fact, we do not give short-term quantitative guidance. We have established a mid-term target of $250 million for fiscal '18 and we remain both committed and confident of achieving that target. We are at the half way point in the year and we have good visibility of the remainder of the year and a good order book buildup across all our verticals. So what I can say is that in the next 6 months, we are confident of delivering strong growth against the comparable period last year. Coming to your second question, the impact of currency for the six months would be 7% and for the Q2 it would be 8%. So the underlying growth is still above 20%.

Prakash Agarwal: In the press release there is a mention of "especially the strong growth is from the Development and Manufacturing Services", so is there a small part of the manufacturing pilot project which has gone live. Will this be a continuous growth that we will see for the remaining of the year and year after, is that right understanding?

Peter Bains: I would just take a step back to answer that question because again many of you will know that we have been investing to expand pre-commercial manufacturing capacity in Syngene and have in fact trebled our capacities since FY14 over the last 18 months. What we are seeing is the pickup in that capacity utilization and we are confident that we will see strong growth in this area going forward.

Moderator: Thank you. The next question is from the line of Ujwal Shah from Quest Investment. Please go ahead.

Ujwal Shah: I just wanted to know of any new client additions that we have seen during the quarter and in terms of client acquisition, what are the steps that Syngene is taking?

Peter Bains: I am again going to take a step backward to begin to answer the question. Syngene is building and strengthening its client base year-after-year. To put that into context, 5-years ago we had a client base of around 100 and at the beginning of this year this was slightly in excess of 200. So we have doubled the client base over 5-years and we continue obviously to look for new clients to join Syngene and for us to develop longer-term relationships with them. We are not going to give client numbers on a quarterly basis because it is better to look at that on an annualized basis as clients can phase in over these quarters. We will update the client numbers at the end of the year but we are continuing to getting traction with new clients every quarter.

Ujwal Shah: Secondly on the Mangalore plant front, in terms of size - how big is the plant? What kind of investments are we making? Which year we would actually see revenue streaming out of the Mangalore plant?

Peter Bains: The land that we have acquired is a 40 acre site and that will enable us to build a significant commercial capacity to be utilized for manufacturing New Chemical Entities for our clients going forward. We are going through the regulatory procedures this year. We will begin to build in next fiscal and would look to complete that in fiscal '18. We would build this plant in a modular fashion, in a very similar process to how Syngene looks to invest growth CAPEX currently: we would stage it by building the shell first and then retaining the rest of the capital expenditure to be disbursed as we get business visibility. So we would phase the capital expenditure across that period.

Ujwal Shah: But, considering that we have already signed three long-term supply agreements, those would be done through this plant itself or in the meanwhile we might actually use our Bengaluru facility for the same?

Peter Bains: Correct, the facility in Bengaluru has capacity to enable us to begin commercial manufacturing, and at the large scales, we would be ready with the Mangalore facility to move up the curve.

Ujwal Shah: This Mangalore facility would also be required to be approved to be by the regulatory authority. So in most case this facility would start generating revenues probably in FY19 or FY20, is the understanding correct?

M.B. Chinappa: Ujwal, this is Chinappa here. Yes, we would be looking to go commercial in FY-'19. Initially, we would start with RSMs: these are Registered Starting Materials which will feed into the Bangalore facility and once we have FDA approval we will start commercial supply out of Mangalore.

Moderator: Thank you. The next question is from the line of Surya Patra from Phillip Capital. Please go ahead.

Surya Patra: Could you share the revenue mix between Manufacturing and Research Services?

M.B. Chinappa: Surya, as the services are integrated across various verticals we do not disclose the individual revenues that come out of Manufacturing or Dedicated Centers or the Development Services.

Peter Bains: Let me expand on the answer to that question a little bit: it is a question that we do get asked quite frequently. The platform that we have built in Syngene is an extensive, end-to-end platform which mirrors the Discovery Development and Manufacturing continuum that our customers would take their own assets through. Quite obviously this is a platform that allows progression of an asset from Discovery into Development into manufacturing leading on to the Commercial Market. So the balance of Syngene's business between Discovery, Development and Manufacturing does have some movement due to the dynamic process. Going forward, we will see a continual titration movement as some of our assets will progress from Development into Manufacturing but we would look to replenish that all the time with new projects and new clients. Hence while at any one point it might be that the balance would be roughly 1/3 each but that is going to change over time and then rebalance over the time as well. I hope that this explanation gives you a little bit of the understanding of how it is difficult to give a precise number because that number will change and we will be operating within ranges.

Surya Patra: On Syngene, you already have around 6-projects in Phase-3 level, out of which 3 have already been partnered. So any further detail on remaining pipeline?

Peter Bains: We have a high single digit number of assets that we are supporting our partners within late stage clinical that is Phase-2b or 3 and we have three long-term commercial supply arrangements in place. Those are still subject to regulatory approval. We cannot give any more guidance than that. We are building a strong pipeline behind that.

The number of assets in earlier clinical stage in 2a and in 1 is building all the time. There will be some attrition on that but the build should enable the late stage pipeline to strengthen going forward as well.

Surya Patra: Any update on commercial supply commencement of you first molecule that you have partnered?

Peter Bains: No, I do not think we can give any clear guidance there. That is in the hands of our partners and the regulators and when they inform us and advise us we can do the same.

Surya Patra: Can you talk about the progress about your Biologics Services front?

Peter Bains: We think that the Biologics platform is a very exciting platform that we are building at Syngene and offers significant potential going forward. In the global marketplace, Biologics are already a substantial component of the broad global pharmaceutical market and the investment behind Biologics in monoclonal antibodies and proteins and peptides is growing faster than the investment behind traditional small molecules. Both are growing but the focus on Biologics is stronger in terms of R&D investment. At Syngene, we have established a platform which will enable us essentially again to mirror the Discovery Development and Manufacturing continuum for large molecules, thus enabling us to support our partners effectively from very early in the Discovery process all the way through to Manufacturing. Our platform in Biologics is less mature than our platform in traditional Small Molecules, but we are working strongly towards the demonstration of a track record with our existing partners. This track record forms a very important part in building acceleration in new partner entry, as we are able to demonstrate that we have worked in Biologics Discovery, in purification, in expression or in manufacturing. Our track record becomes a very strong platform for new clients to engage with us. So I think, as we build that we would be looking to see an acceleration going forward of our Biologics contribution to Syngene as a whole.

Surya Patra: On accounting side, you have indicated that tax rate will rise from 14% to FY15, but now in H1, the tax rate remain on 14% range only. So, what is your outlook on tax rate? Also, could you guide for your planned CAPEX of around $250 million?

M.B. Chinappa: We expect tax rates to remain at these levels for FY-'16; inch up over the next 2-years and then step up towards the MAT rates in FY-'19.

Peter Bains: With regard to the CAPEX, we have a significant strategic growth CAPEX plan which is around $200 million over the next 4-years or so. The high level divisions of that are: approximately $100 million would be earmarked for the Mangalore facility. As I have described, the spending in that will be phased through the shell first and then linked to greater business visibility. Over the next 3 to 4 years, we would also continue the ongoing growth capital investment program that we have to expand existing capacities against shorter term business demand visibility. For example, we are building a 200,000 square foot Syngene Research Center which will be multi-functional across chemistry, biology and other services. We are also looking at expanding in Formulations development and we are looking at expanding significantly our Biologics Manufacturing capacity. As I said in my introduction, we are also using this growth CAPEX to extend our platform to continue to add new and exciting capabilities to strengthen the integrated platform that we offer and some of these include very high potential opportunities in Oligonucleotide Manufacturing, Viral Testing and Antibody Drug Conjugates. So we need to continue to invest in both capacity expansion against near term demand and capability expansion; both to meet our customer needs of today and in some cases to anticipate future opportunities where Syngene can look to take first move of position in India.

Moderator: Thank you. The next question is from the line of Rohit Ojha. Please go ahead.

Rohit Ojha: My question is regarding our big clients who would really like to have a fewer number of vendors. How do we compete with the real big players like PAREXEL, Covance, and Quintiles?

Peter Bains: From a competitive landscape position we believe Syngene is very well placed. In India, we have an extremely unique model offering a range of services which I think is unparalleled. The competition that we face here, tends to come in a more discrete, component-based fashion. Nobody in India offers the extensive integrated platform what Syngene does, but, of course, we get competition perhaps on chemistry here or perhaps on analytical there, but nobody can offer the integrated platform that we do. In Asia, we are clearly now one of the most advanced CROs and moving into Commercial Manufacturing become CRAMS. The competition there again is largely component-based but can include some integrated players as well who can offer similar packages to us, but then the unique India advantages to play. On the broader global stage, the companies that you mentioned are actually focused on clinical activities largely around running global clinical trials. At Syngene, we have a clinical development platform that is

focused exclusively within India. So we do not really compete on a head-to-head basis with Covance, PAREXEL or Quintiles.

Rohit Ojha: Further on clinical trials, how does the regulatory framework in India affect us – are we at a disadvantage compared to some other countries or how does that pan out?

Peter Bains: Well that is a moving picture and I think 2-years ago the very easy answer to your question would have been: Yes. There were a number of regulatory policies that were being put in place, which placed India at an extreme disadvantage and that is when we clearly saw almost a mass exodus of the multi-national companies who were moving their clinical trials into more friendly jurisdictions. Of course, clinical trials are very much on the critical path for these companies and they could not take the risks of uncertainty on time and uncertainty on decision-making. I think what we have seen in the last year in particular, is the pendulum swinging back a bit and there are a number of very clear improvements that have been made in terms of policy and procedure around clinical trial activity in India. We are already seeing some good signs that the global companies are reexamining India now and are coming back. India is in a tremendously strong position with its large population base, a strong hospital infrastructure and investigator network. I think many companies would like to come into India to engage and leverage those capabilities, but the regulatory framework that had been unfriendly is certainly much more friendly now and Syngene is very well placed to take advantage of this. We retained our clinical development platform, we have a good network of investigators in hospitals, good experience across many therapeutic areas. So if the regulatory environment improves in India I think we can certainly look for our clinical development platform to accelerate ahead of that curve.

Rohit Ojha: If a drug is really commercialized, what kind of percentage sales contribution can come from Syngene Manufacturing because I would guess there would be other vendors also for drug?

Peter Bains: We really cannot answer that question in a quantitative way, I think that would be case-specific and company-specific. So some companies would operate with multiple supply chain vendors, some would operate with a much narrower base and that would have to be on a case-by-case basis.

Rohit Ojha: But can you give a typical number how many vendors normally there?

Peter Bains: I think it is more the norm to have at least dual sourcing, but that is a standard risk mitigation factor. Beyond that we really cannot comment and it is a case-by-case, company-by-company decision.

Moderator: Thank you. The next question is from the line of Abhishek Sharma from India Info line. Please go ahead.

Abhishek Sharma: What triggered the latest USFDA audit?

Peter Bains: We had two USFDA audits in the last 6-months -- one was from the FDA surveillance unit, so there is no trigger on that: that is just quite simply almost on a random selection basis that the agency would come and conduct an audit of unspecified nature. The other one was triggered by an NDA submission to the agency which is a natural trigger. And as I said earlier we pass both of these with no 483s or observations.

Abhishek Sharma: But does the agency regularly inspect early stage manufacturers or R&D labs as well, is that in the course of work?

Peter Bains: I think my answer to that would be it is not regularly conducted but it can happen occasionally as it happened with us with the surveillance inspection. The normal trigger would be for example an NDA submission by our client to the agency, as their molecule has progressed to a stage in development where they have submitted their package to the agency and the agency would respond with an inspection of the facility from where the drug supply may come from. So that would be a normal trigger.

Abhishek Sharma: The latter inspection would be for the Bengaluru facility I presume?

Peter Bains: Yes.

Moderator: Thank you. The next question is from the line of Krishna Kiran from Spark Capital. Please go ahead.

Harith: This is Harith here. On the FOREX gain/loss for the quarter, I understand there is an amortization component, but including that how much was the gain/loss for the quarter?

M.B. Chinappa: As Peter mentioned earlier, we gained about 8% in the quarter on account of favorable currency movement, but in the other expenses line we lost Rs.10 crores because of the contracts paying off Rs.2 lower than the applicable market rates.

Harith: My question is related to the visibility that you have on starting commercial scale supplies. As you mentioned one of your clients NDA has triggered an inspection of your facility. So, how many of the molecules have your clients filed NDAs – is it just one or is there more than one?

Peter Bains: So to-date there has been one NDA filing. As I said earlier, we have a high single-digit number of molecules where we are supporting clients in late clinical development which include Phase 2b and Phase-III. We would expect that some of those will progress through, but the visibility of that and the timing of it remains with our clients at this stage.

Moderator: Thank you. The next question is from the line of Karthik Mehta from Sushil Finance. Please go ahead.

Karthik Mehta: On the $250 million guidance, that is considering what exchange rate?

M.B. Chinappa: It is a dollar denominated guidance. Therefore the applicable FOREX rate in FY 18 should apply.

Karthik Mehta: This guidance is on the basis of the existing gross block what we are sitting upon and the incremental growth from FY19 onwards would be on the basis of $200 million CAPEX what we are currently going to incur, is that correct?

M.B. Chinappa: About $100 million of assets would have been capitalized by then. So it is based on existing gross block and another $100 million of additions over the next couple of years.

Karthik Mehta: We have seen your asset turnover dipping a little bit compared to your historical standard. So is it because of that whatever capacities we have added in recent years is yet to fructify to the full power? And what could be the general asset turnover as well as margin profile would be coming up post your transition from CRO to CRAM?

M.B. Chinappa: I suspect your working is based on the total gross block including capital work-in progress. If you strip out capital work-in progress, you will see that we have been able to maintain and actually improve our asset turnover.

Karthik Mehta: So while we transit ourselves as we endeavor to that from CRO to CRAM, is there going to be any meaningful difference in terms of asset turnover or the margin profile?

Peter Bains: As we model this out: we think not. We think that the margin profile will remain within the range that we have delivered over the last 5-years which is in low to mid-30s at EBITDA and the high teens at PAT. Remember, the manufacturing that we undertake is for Novel Chemical Entities and margin there are different from multi-source generic supplies. So we do not see any material change in margins. To your first question, yes, we think the asset turnover would remain in the same range as well.

Moderator: Thank you. The next question is from the line of Nitin Gosar from Religare Invesco. Please go ahead.

Nitin Gosar: Just a clarification on the $250 million guidance. Roughly by FY15 we ended up around $135-140 million on the turnover. So incremental $100-115 million kind of revenue should be largely coming in from manufacturing side of the business?

Peter Bains: No, I think it is again spread out across the three verticals. I think that we would probably see some increase in proportion of manufacturing but we would also still be looking to see strong growth as we have seen this half in our other verticals as well in Discovery services and dedicated centers. So the pattern of growth, which I think is one of Syngene's strength, is that it is broad-based and we anticipate that broad-based growth will continue; but we could see some acceleration coming from the manufacturing supplies as we transition from pre-commercial into commercial.

Nitin Gosar: The three clients that we have signed of late, does the $250 million guidance include full potential coming in from those clients or it hardly takes care of the potential those clients can deliver on?

Peter Bains: I think as we described the Mangalore facility there is a longer-term commercial supplies would come in later years. I think a small proportion of that guidance would come from early commercial supplies, but we would look to see the acceleration on commercial supplies beyond the timeframe.

Nitin Gosar: Till FY18 broadly it is Bangalore-based Manufacturing assets that we will be utilizing and from FY19 it will be largely Mangalore-based?

Peter Bains: You are absolutely right in the first comment that you made up, until '18 it will be Bangalore-based, beyond that it will be both. We have substantial capacity here in Bangalore that would be augmented by the Mangalore facility.

Moderator: Thank you. The next question is from the line of Charulata Gaidhani from Dalal & Broacha. Please go ahead.

Charulata Gaidhani: My question is relating to the debt levels. I can see that the debt has gone up marginally in the first half. What is the debt that you anticipate for FY16?

M.B. Chinappa: As we invest into the growth CAPEX we will end up with, as Peter mentioned earlier, $200 million of CAPEX over the next 3-years. This will lead to an increase in the borrowings. We see this building up to a debt-equity ratio of about 0.4 at its peak.

Charulata Gaidhani: The debt will be dollar-denominated?

M.B. Chinappa: It will be a combination of all available options. We will evaluate the price of loans at the time of each drawdown. We have access to drawdown on dollar loans, buyer's credit and also rupee-denominated loans.

Charulata Gaidhani: What is the current breakup of debt?

M.B. Chinappa: Currently, they are all denominated in foreign currency.

Moderator: Thank you. The next question is from the line of Shradha Patil from Wealth Managers. Please go ahead.

Shradha Patil: I just wanted to get a clarification regarding the USFDA approvals for the plant. So, currently, what is the status of the approval for the plant?

Manoj Nerurkar: The plant has been approved for a particular product based on the NDA filing by one of our clients and the plant remains approved for that product. Any new product that any client comes to us with and files NDA, there will be an additional inspection. As you know the USFDA inspections happen are product-based and not just facility-based.

Shradha Patil: As on March '15, we have seen the core working capital cycle getting stretched due to the inventories and debtors. So, what do you see the level going on further like what is as on 30th September will that be maintained?

M.B. Chinappa: Yes. Actually March was abnormally high because some funds were stuck with RBI. September has seen a normalization of debtors and going forward you could model based on the current levels i.e. about 69-day sales.

Shradha Patil: So this would be the normal level?

M.B. Chinappa: Yes.

Shradha Patil: I just wanted to know what the reason for the increase in the inventory is.

M.B. Chinappa: That is in line with the business growth largely coming from our Manufacturing Services.

Shradha Patil: This is also what is going to remain?

M.B. Chinappa: Yes.

Shradha Patil: What is the regular CAPEX that you look for?

M.B. Chinappa: It is all built into this $200 million which will be spread over a period of 3-years.

Shradha Patil: So out of $200 million how much would be the every year CAPEX that you would incur?

M.B. Chinappa: This year it would be about 50 to 75 million USD, next year 75 to 100 million and the balance in year three.

Shradha Patil: Of the total $200 million how do you look to fund the CAPEX -- how much from the internal accruals and how much from debt?

M.B. Chinappa: Like I mentioned earlier, at a peak we expect debt-equity ratio of 0.4.

Moderator: Thank you. The next question is from the line of Bhagwan Chaudhary from Sunidhi Securities. Please go ahead.

Bhagwan Chaudhary: Out of our three segments of the business, what was the growth from the Research Centers part in the first half and a quarter?

Peter Bains: We have given the growth level at the top line but we do not break it down any further into the verticals.

Bhagwan Chaudhary: But still it was in line, lower or higher than what the consolidated is?

Peter Bains: As I said in my opening comments, all the three verticals have delivered growth. One of the very encouraging features is that we are seeing this broad-based growth. So I cannot certainly confirm the growth number in the Dedicated Centers or Discovery Services. As I mentioned earlier, we saw a particularly strong growth in the Development and Manufacturing services.

Bhagwan Chaudhary: The product which triggered our inspection, can you please give some light in terms of the supply for the same product? We supplied the same product in the last year as well as this year. So it was higher in this first half compared to the previous half?

M.B. Chinappa: Naturally the volumes tend to increase over time, basically when the asset moves from Phase-2 to Phase-3 and from Phase-3 to launch quantity, there is a natural build-up in the requirements for the product.

Bhagwan Chaudhary: So you are saying that they are building up the formulations while they have filed with the regulator?

Peter Bains: Yes.

Moderator: Thank you. The next question is from the line of Prakash Agarwal from Axis Capital. Please go ahead.

Prakash Agarwal: Just two questions: First one is on the upcoming Discovery Research block of 200,000 sq. ft. What is the update there in terms of when is it getting live and would it that be in step function in terms of getting more scientists, how should we project that going forward?

Manoj Nerurkar: The facility will come live in April of 2016 and then we will start filling it with new collaborations that will be working with different partners.

Prakash Agarwal: But, is there a revenue visibility today like 20, 30 or 50% already there in the book?

M.B. Chinappa: Prakash, we cannot comment on that, but all of this is built into this growth projections of $250 million.

Prakash Agarwal: If I look at this quarter specifically, our staff cost has come down. This could be partly because of manufacturing piece have gone higher which requires lower staff cost which is a higher cost spend in the Research Services piece, Discovery piece. So, is this the average going forward or with Research Services increasing next year onwards we will see that the average being coming back to 24%?

M.B. Chinappa: The base salary cost has actually increased by 18%: 12% on account of increments and about 6% on account of additions to the headcount. But there are some reduction in ESOP charge etc., which has moderated of the growth to 13%.

Prakash Agarwal: So particularly you are saying it is a one-off?

M.B. Chinappa: Not a one-off, the increase is muted because last year there was a higher ESOP charge.

Prakash Agarwal: Percentage of sale this quarter is 21% versus 24% average last year. So I was just coming from that background.

M.B. Chinappa: Yes, the combination of material, power and employee cost is roughly 53% to 55%.

Prakash Agarwal: If you would give us one tracking factor in terms of order book or some breakup so that we can continuously track what is the progress in each of these big segments you have, would that be possible sir?

Peter Bains: The guidance that we give on a quantitative basis remains mid-term and we cannot give any more granularity other than the advice I gave on the visibility of the second half being strong. We have a good order book broadly spread across our verticals and we are confident that we will see strong growth in the second half against the comparable period last year.

Moderator: Thank you. The next question is from the line of Rohit Ojha. Please go ahead.

Rohit Ojha: My question is regarding the different sectors that we cater to. So you mention that Pharma and Biotech are probably the major chunk of it but can you give some more information on the other sectors like Agri and Cosmetics for example?

Peter Bains: The underlying capability that we have built in Syngene applies very strongly to the Pharmaceutical and the Biotechnology customers that we serve on a global basis. But these capabilities: chemistry, biology, analytical, stability and so forth, apply strongly in many cases to other large sectors like agrochemicals, like nutrition or like in veterinary. So we have a diverse customer base as a consequence of that and are building good customer contracts and relationships in these other sectors. So it is a sort of natural adjacency linked to the underlying capabilities and represents for us new opportunities, new avenues of growth that diversify our business base.

Rohit Ojha: I understand the similarities and this being a potential source for growth but are we really looking at these as focus areas or we want to currently only focus on Pharma and Biotech while these can be explored later on?

Peter Bains: No, I think that Pharma and Biotech have been and will remain central to Syngene's customer base of future growth, but in parallel, we are aggressively exploring these new opportunities and avenues for growth.

Rohit Ojha: It is about our client concentrations. You mention the top 10 contribute roughly 70% of the revenues. But what about the tail ends, so these must be really small contributions to our revenue as a percentage, so any light you can throw on how these can scale up or are these just one-off clients who would complete a project and go away?

Peter Bains: I think that broad description is correct. We have a concentration of about 70% for the top-10 but this is a dynamic as well. There are many small customers that we have, but the new customers tend to start small. New customers are highly unlikely come to Syngene, or any other CRO for that matter, and start with a large scale strategic project. They would normally come and test you on a component basis as a demonstration of your capabilities and ways of working. We have a tremendous track record built over 15 years, of building relationships which grow and can scale over time. One of the strengths of our platform is that we have very high number of entry points that clients can start working with Syngene: in Discovery, in Development or anywhere else along that Drug Discovery continuum and because of the extensive end-to-end array of capabilities, they can look to grow with this as their molecules progress or expand with this as they want to take more advantage of the services that we offer. So it is a continual dynamic, it is not a static precision or tool and we will be looking to obviously grow some of these smaller clients from the time into bigger clients because we demonstrate the value of our services to them.

Moderator: Thank you. I would now like to hand the floor back to you, Mr. Peter Bains for closing comments.

Peter Bains: Ladies and Gentlemen, again thank you all very much for joining us today. Enjoy Dussehra holiday and we look forward to seeing you again at the next quarter.

Moderator: Thank you very much, sir. Ladies and Gentlemen, that concludes the conference call for Syngene International. You may now disconnect your lines.

Note: This document has been edited to improve readability